

TOWNSHIP OF MORTON
MECOSTA COUNTY, MICHIGAN

REPORT ON FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Morton Township	County Mecosta
Audit Date 6/30/05	Opinion Date 9/16/05	Date Accountant Report Submitted to State: 9/26/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC			
Street Address 1107 E. Eighth Street	City Traverse City	State MI	ZIP 49686
Accountant Signature <i>Barry E. Gaudette, CPA</i>		Date 9/26/05	

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INTRODUCTORY SECTION

TOWNSHIP OF MORTON
LIST OF ELECTED OFFICIALS
JUNE 30, 2005

ELECTED OFFICIALS

James E. Scott	Supervisor
Lewis L. Johnson	Clerk
Douglas Behrend	Treasurer
Mark Kuzma	Trustee
William Guy	Trustee

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Members of the Township Board
Township of Morton
Mecosta County, Michigan

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Morton, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Morton, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

Since it was not practical to extend my auditing procedures into the prior unaudited year, I am unable to express an opinion on the consistency of application of accounting principles with the preceding year.

Township of Morton
Independent Auditors' Report
Page Two

In my opinion, except for the omission of the information mentioned in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Township of Morton, Michigan, as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note IV(C), the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*, as amended and interpreted, as of June 30, 2005.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 16, 2005, on my consideration of the Township of Morton, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The financial statements referred to above do not include the Management Discussion and Analysis, which is required supplementary information and should be included in order to conform with accounting principles generally accepted in the United States of America.

Bary E. Sandlett, CPA, PC

September 16, 2005

BASIC FINANCIAL STATEMENTS

Township of Morton
Government-Wide Financial Statements
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,808,760
Restricted investments	146,229
Due from other funds	9,530
Capital assets (net of accumulated depreciation):	
Land and improvements	224,692
Buildings and improvements	524,606
Fire trucks and equipment	486,645
Furniture and fixtures	4,265
Equipment	<u>14,786</u>
Total assets	<u>3,219,513</u>
LIABILITIES	
Noncurrent liabilities:	
Due within one year	<u>8,848</u>
Total liabilities	<u>8,848</u>
NET ASSETS	
Invested in capital assets	1,254,994
Unrestricted	<u>1,955,671</u>
Total net assets	<u>\$ 3,210,665</u>

See notes to financial statements

Township of Morton
Government-Wide Financial Statements
Statement of Activities
For the Year Ended June 30, 2005

Functions /Programs	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
Legislative	\$ 114,835	\$	\$	\$
General				
Government	232,417	17,639		
Public safety	297,276	90,937	22,777	72,354
Public works	20,244			
Community/ economic dev.	18,589			
Recreation & culture	216,790	41,022	2,394	12,794
Interest expense	<u>1,432</u>	<u></u>	<u></u>	<u></u>
Total governmental activities	<u>\$ 901,583</u>	<u>\$149,598</u>	<u>\$ 25,171</u>	<u>\$ 85,148</u>

General revenues:
Property taxes & administrative fees
Licenses and permits
State revenue sharing
Interest earnings & rents

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

See notes to financial statements

Net (Expense)
Revenue and
Changes in
Net Assets

Governmental
Activities

\$ (114,835)

(214,778)

(111,208)

(20,244)

(18,589)

(160,580)

(1,432)

(641,666)

719,308

4,410

213,701

28,826

966,245

324,579

2,886,086

\$3,210,665

Township of Morton
Balance Sheet
Governmental Funds
June 30, 2005

	<u>General</u>	<u>Building Electrical Plumbing Department</u>	<u>Fire/Rescue Equipment Maintenance</u>
ASSETS			
Cash and cash equivalents	\$ 1,071,207	\$ 48,967	\$ 385,894
Investments-restricted			
Due from other funds	<u>9,530</u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,080,737</u>	<u>\$ 48,967</u>	<u>\$ 385,894</u>
FUND BALANCES			
Fund balances			
Unreserved,			
reported in:			
General fund	\$ 1,080,737	\$	\$
Building/electrical/ plumbing department fund		48,967	
Fire/rescue equipment maintenance fund			385,894
Fire/rescue operations fund			
Library fund			
Health fund			
Reserved, reported in:			
Library fund	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>1,080,737</u>	<u>48,967</u>	<u>385,894</u>
Total liabilities and fund balances	<u>\$ 1,080,737</u>	<u>\$ 48,967</u>	<u>\$ 385,894</u>

See notes to financial statements

<u>Fire/ Rescue Operations</u>	<u>Library</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
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\$ 54,571	\$ 172,317 146,229	\$ 75,804	\$1,808,760 146,229
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9,530

<u>\$ 54,571</u>	<u>\$ 318,546</u>	<u>\$ 75,804</u>	<u>\$1,964,519</u>
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\$	\$	\$	\$1,080,737
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48,967

385,894

54,571

172,317

75,804

54,571
172,317
75,804

146,229

146,229

54,571

318,546

75,804

1,964,519

\$ 54,571

\$ 318,546

\$ 75,804

\$1,964,519

Township of Morton
Reconciliation of the Governmental Funds
Balance Sheet
With the Statement of Net Assets
June 30, 2005

Amounts reported for governmental activities in the
statement of net assets are different because:

Total Fund Balance - Governmental Funds	\$ 1,964,519
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Capital assets used in governmental activities
are not financial resources and therefore are
not reported as assets in governmental funds:

Cost of capital assets	2,018,289
Accumulated depreciation	(763,295)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(8,848)</u>
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Total Net Assets - Governmental Activities	<u>\$ 3,210,665</u>
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See notes to financial statements

Township of Morton
Statement of Revenues, Expenditures and Changes
In Fund Balance
Governmental Funds
For the Year Ended June 30, 2005

	<u>General</u>	<u>Building/ Electrical/ Plumbing Department</u>	<u>Fire/ Rescue Equipment Maintenance</u>
REVENUES			
Taxes & administrative fees \$	351,582	\$	\$ 106,438
Licenses & permits	4,410	90,937	
Federal grants			45,453
State revenue sharing	213,701		
Contributions from local units			
Charges for services			
Fines & forfeits			
Interest & rents	14,781	748	4,000
Miscellaneous	17,639		26,901
Total revenues	<u>602,113</u>	<u>91,685</u>	<u>182,792</u>
EXPENDITURES			
Current:			
Legislative	114,835		
General government	218,522		
Public safety		89,887	23,829
Public works	20,244		
Community/economic develop.	18,589		
Recreation & culture			
Capital outlay	28,930		73,612
Debt service	15,000		
Total expenditures	<u>416,120</u>	<u>89,887</u>	<u>97,441</u>
Excess (deficiency) of revenues over (under) expenditures	<u>185,993</u>	<u>1,798</u>	<u>85,351</u>
OTHER FINANCING SOURCES (USES)			
Restricted investment donations & dividends			
Transfers in	14,400		
Transfers (out)	(10,000)	(14,400)	
Total other financing sources (uses)	<u>4,400</u>	<u>(14,400)</u>	
Net changes in fund balances	190,393	(12,602)	85,351
Fund balances-beginning	<u>890,344</u>	<u>61,569</u>	<u>300,543</u>
Fund balances-ending	<u>\$ 1,080,737</u>	<u>\$ 48,967</u>	<u>\$ 385,894</u>

See notes to financial statements

<u>Fire/ Rescue Operations</u>	<u>Library</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 101,608	\$ 159,680	\$	\$ 719,308
			95,347
	2,394		45,453
12,587			216,095
	2,927		12,587
	32,833		2,927
716	7,582	999	32,833
10,190	5,262		28,826
<u>125,101</u>	<u>210,678</u>	<u>999</u>	<u>59,992</u>
			<u>1,213,368</u>
			114,835
		2,505	221,027
118,594			232,310
			20,244
			18,589
	205,955		205,955
	12,715		115,257
<u>118,594</u>	<u>218,670</u>	<u>2,505</u>	<u>15,000</u>
			<u>943,217</u>
<u>6,507</u>	<u>(7,992)</u>	<u>(1,506)</u>	<u>270,151</u>
	12,794		12,794
		10,000	24,400
			(24,400)
	<u>12,794</u>	<u>10,000</u>	<u>12,794</u>
6,507	4,802	8,494	282,945
<u>48,064</u>	<u>313,744</u>	<u>67,310</u>	<u>1,681,574</u>
<u>\$ 54,571</u>	<u>\$ 318,546</u>	<u>\$ 75,804</u>	<u>\$1,964,519</u>

Township of Morton
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2005

Amounts reported for governmental activities in the
statement of activities are different because:

Total net change in fund balances - total governmental funds	\$ 282,945
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded (were less than) depreciation in the current period.	28,066
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>13,568</u>
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Change in net assets of governmental activities	<u><u>\$ 324,579</u></u>
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See notes to financial statements

Township of Morton
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	<u>Tax Collection Fund</u>
ASSETS	
Cash and cash equivalents	\$ 9,530
Due from other governmental units	
Total assets	<u>9,530</u>
LIABILITIES	
Due to other funds	9,530
Due to other governmental units	
Total liabilities	<u>9,530</u>
NET ASSETS	
Held in trust for other purposes	<u>\$</u>

See notes to financial statements

Township of Morton
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2005

	<u>Tax Collection Fund</u>
ADDITIONS	
Property tax collections and fees	\$6,765,586
Interest earned	<u>2,739</u>
Total additions	<u>6,768,325</u>
DEDUCTIONS	
Payments to general fund	351,582
Payments to fire/rescue equipment maintenance fund	106,438
Payments to fire/rescue operations fund	101,608
Library fund	159,680
Payments to other governmental units	<u>6,049,017</u>
Total deductions	<u>6,768,325</u>
Changes in net assets	
Net assets - beginning	<u> </u>
Net assets - ending	<u><u>\$ </u></u>

See notes to financial statements

Township of Morton
Notes to the Financial Statements
June 30, 2005

I. Summary of significant accounting policies

The financial statements of the Township of Morton (the Township) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township's accounting policies are described below.

A. Reporting entity

The Township is governed by an elected five-member board. The accompanying financial statements present the Township's operations for which the government is considered to be financially accountable. The Township has no component units and is not responsible for any jointly governed organizations.

B. Government-wide financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Township. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from the goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provided have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when a payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township property tax is levied each December 1st on the taxable valuation of property (as defined by State statutes) located in the Township as of the preceding December 31st. Real property taxes not collected as of March 1st are turned over to Mecosta County, which advances the Township 100% for the delinquent taxes.

The 2004 taxable valuation of the Township totaled \$214,214,343, on which ad valorem taxes levied consisted of 1.1937 mills for Township operating purposes and voted millage of .7500 mills for library operating purposes, .5000 mills for fire/rescue equipment maintenance fund, and .4773 for fire/rescue operations fund, respectively. These amounts are recognized in the respective funds as current tax revenue as well as administrative fees of \$68,656 to collect the taxes and applicable interest.

The Township reports the following major governmental funds:

The *general fund* is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The *building/electrical/plumbing department, fire/rescue equipment maintenance, fire/rescue operations, and library funds* are special revenue funds.

The Township reports the following nonmajor governmental fund:

The *retirement health insurance* is a special revenue fund.

The Township reports the following fiduciary funds:

The *Current Tax Collection Fund* is used to account for resources held by the Township in a purely custodial capacity. Money in this fund is from current tax and special assessment collections. Timely distribution to the appropriate fund and local unit must be made in accordance with Section 43 of the General Property Tax Act.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The Township did not have any proprietary funds.

When both restricted and unrestricted resources are available for use, it is the government's policy to use unrestricted sources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Township to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The Township is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Short-term interfund receivables/payable

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet in the governmental fund financial statements.

3. Receivables and payables

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

4. Restricted assets

The Library Fund has an endowment fund that collects donations and dividends from its investments. The funds are invested with Oppenheimer Funds in various bond and stock funds. The market value as of June 30, 2005 was \$146,229.

5. Capital assets

Capital assets, which include property, plant, and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded as historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property and equipment of the Township is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Fire trucks and equipment	10-20
Furniture and fixtures	5
Equipment	5-10

6. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

In the fund financial statements, governmental fund types, recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Fund equity

In the fund financial statements, governmental funds report the reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

8. Comparative data/reclassifications

If the Township had an individual enterprise fund, comparative total data for the prior year would have been presented only in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

II. Stewardship, compliance, and accountability

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Supervisor submits to the Township Board a proposed budget for the fiscal year commencing on April 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances - budget and actual - GAAP basis - general funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to April 1, the budget is legally adopted by the Township Board as a resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated.
4. The Supervisor is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be

approved by the Township Board.

5. Formal budgetary integration is employed as a management control device during the year for the general fund and all of the special revenue funds.
6. The budget as presented, has not been amended. Supplemental appropriations were made during the year with the last one approved prior to April 1st.

B. Excess of expenditures over appropriations

For the year ended June 30, 2005, expenditures exceeded appropriations in the Library Fund by \$4,270. This overexpenditure was funded by the available fund balance in the Library Fund.

III. Detailed notes on all funds

A. Deposits and investments

At year-end, the carrying amount of the Township's deposits deposits were \$1,964,519 (includes \$9,530 in the Tax Collection Fund) and the bank balance was \$1,987,501, of which \$706,827 was covered by federal depository insurance and \$20,715 were invested in a U.S. government trust.

B. Receivables

The Township does not have any material receivables as of June 30, 2005.

C. Capital assets

Capital asset activity for the year ended June 30, 2005
was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land & improvements	\$ 224,692	\$	\$	\$ 224,692
Capital assets, being depreciated:				
Buildings & improvements:				
Township hall	259,961	5,116		265,077
Fire buildings	226,000			226,000
Library building	408,000	12,715		420,715
Fire trucks & equip.	784,379	73,612		857,991
Furniture & fixtures		5,331		5,331
Equipment		18,483		18,483
Total capital assets being depreciated	<u>1,678,340</u>	<u>115,257</u>		<u>1,793,597</u>
Less accumulated depreciation for:				
Buildings & improvements:				
Township hall	(130,874)	(6,627)		(137,501)
Fire buildings	(90,400)	(5,650)		(96,050)
Library building	(142,800)	(10,835)		(153,635)
Fire trucks & equip.	(312,030)	(59,316)		(371,346)
Furniture & fixtures		(1,066)		(1,066)
Equipment		(3,697)		(3,697)
Total accumulated depreciation	<u>(676,104)</u>	<u>(87,191)</u>		<u>(763,295)</u>
Total capital assets, being depreciated, net	<u>1,002,236</u>	<u>28,066</u>		<u>1,030,302</u>
Governmental activities capital assets, net	<u>\$1,226,928</u>	<u>\$ 28,066</u>	<u>\$</u>	<u>\$1,254,994</u>

Depreciation expense was charged to functions/programs of the government as follows:

Governmental activities:	
General government	\$ 11,390
Public safety	64,966
Recreation & culture	<u>10,835</u>
Total depreciation expense- governmental activities	<u>\$ 87,191</u>

D. Interfund receivables, payables, and transfers

Interfund transfers:

Transfer out:	<u>Transfer In:</u>		
	<u>General Fund</u>	<u>Other Govt'l</u>	<u>Total</u>
General fund	\$	\$ 10,000	\$ 10,000
Building/electrical/ plumbing department	<u>14,400</u>		<u>14,400</u>
Total transfers out	<u>\$14,400</u>	<u>\$ 10,000</u>	<u>\$ 24,400</u>

The composition of interfund balances as of June 30, 2005, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Tax collection	<u>\$ 9,530</u>

E. Long-term debt

Land contract

On November 30, 1999 the Township purchased property adjacent to the Industrial Park for \$72,500. Payments are \$7,500 semiannually. the land contract loan outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	7.50%	<u>\$ 8,848</u>

Land contract debt service requirements to maturity are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	<u>\$ 8,848</u>	<u>\$ 395</u>

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities: Land contract payable	<u>\$ 22,416</u>	<u>\$ 13,568</u>	<u>\$ 8,848</u>	<u>\$ 8,848</u>

IV. Other information

A. Risk management

The Township is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and employee injuries (workers compensation) as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefits claims and participates in the Michigan Municipal League & Property Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents). Settlements claims have not exceeded coverages for each of the past three fiscal years.

B. Pension plan

The Township contributes 10% of the employees wages to the Lincoln Retirement Financial money purchase pension plan, which is a defined contribution pension plan. The Township contributed \$21,722 to the pension plan during the fiscal year ended June 30, 2005.

C. Implementation of new accounting standard

As of and for the year ended June 30, 2005, the Township implemented GASB Statement Number 34 - *Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments*. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of

economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that focus on a governments' major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

D. Postretirement benefits

The Township on March 8, 2000, adopted a resolution establishing a Township Employee Health Care Fund for the purpose of accumulating funds to provide for the funding of health care benefits to retirees and beneficiaries of the retirees of Morton Township; and

To offer and provide to its qualified elected officials and full time employees certain health care benefits during retirement. The fund is restricted to paying no more than 75% of the health care insurance benefit cost on behalf of qualified Morton Township elected officials, employees, and retirees, and the expense of the administration of the Fund; and

A person qualified to receive benefits from the fund to provide health care insurance to retirees shall be an elected Morton Township official who has served eight(8) years or more as an elected official of Morton Township, or a full time(36 hours per week or more) Morton Township employee who has worked for Morton Township for ten(10) or more consecutive years; and is at least 62 years of age.

There is one retire/beneficiary currently receiving this benefit. The cost to the Township was \$2,505 during the fiscal year ended June 30, 2005. The Retirement Health Insurance Fund has a balance of \$75,804 in cash as of June 30, 2005.

Required Supplementary Information

Township of Morton
General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>with</u> <u>Final</u> <u>Budget</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
Property taxes and related fees	\$325,900	\$ 325,900	\$ 351,582	\$ 25,682
Licenses & permits	2,300	2,300	4,410	2,110
State revenue sharing	190,000	190,000	213,701	23,701
Interest earnings	4,500	4,500	13,656	9,156
Rents			1,125	1,125
Miscellaneous	<u>31,500</u>	<u>31,500</u>	<u>17,639</u>	<u>(13,861)</u>
Total revenues	<u>554,200</u>	<u>554,200</u>	<u>602,113</u>	<u>47,913</u>
EXPENDITURES				
Current:				
Legislative:				
Township board	<u>121,669</u>	<u>121,669</u>	<u>114,835</u>	<u>6,834</u>
General government:				
Supervisor	26,146	26,146	25,419	727
Elections	4,800	4,800	4,751	49
Clerk	38,937	38,937	37,808	1,129
Board of review	2,650	2,650	1,406	1,244
Assessor	75,900	75,900	73,562	2,338
Treasurer	43,034	43,034	40,907	2,127
Data processing software	31,750	31,750	16,261	15,489
Township hall	22,900	22,900	14,977	7,923
Cemetery	4,100	4,100	2,331	1,769
Industrial park	<u>3,400</u>	<u>3,400</u>	<u>1,100</u>	<u>2,300</u>
Total general government	<u>253,617</u>	<u>253,617</u>	<u>218,522</u>	<u>35,095</u>
Public works:				
Refuse cleanup	10,000	10,000	500	9,500
Highway maintenance	3,000	3,000	109	2,891
Major road work	<u>50,000</u>	<u>50,000</u>	<u>19,635</u>	<u>30,365</u>
Total public works	<u>63,000</u>	<u>63,000</u>	<u>20,244</u>	<u>42,756</u>

Township of Morton
General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>with</u>
				<u>Final</u>
				<u>Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
EXPENDITURES (CONT'D):				
Current:				
Community/economic development:				
Community planning & zoning	30,100	30,100	18,019	12,081
Zoning board of appeals	<u>1,500</u>	<u>1,500</u>	<u>570</u>	<u>930</u>
Total community/economic development	<u>31,600</u>	<u>31,600</u>	<u>18,589</u>	<u>13,011</u>
Capital outlay	<u>26,150</u>	<u>26,150</u>	<u>28,930</u>	<u>(2,780)</u>
Debt service	<u>15,201</u>	<u>15,201</u>	<u>15,000</u>	<u>201</u>
Total expenditures	<u>511,237</u>	<u>511,237</u>	<u>416,120</u>	<u>95,117</u>
Excess (deficiency) of revenues over (under) expenditures	<u>42,963</u>	<u>42,963</u>	<u>185,993</u>	<u>143,030</u>
OTHER FINANCING SOURCES (USES)				
Transfers in(out):				
Building/electrical/plumbing department fund	14,200	14,200	14,400	200
Retirement health insurance fund	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	
Total other financing sources(uses)	<u>4,200</u>	<u>4,200</u>	<u>4,400</u>	<u>200</u>
Net change in fund balances	47,163	47,163	190,393	143,230

Township of Morton
General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual
For the Year Ended June 30, 2005
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>with</u> <u>Final</u> <u>Budget</u> <u>Positive</u> <u>(Negative)</u>
Net change in fund balances	47,163	47,163	190,393	143,230
Fund balances- beginning	<u>880,767</u>	<u>880,767</u>	<u>890,344</u>	<u>9,577</u>
Fund balances- ending	<u>\$927,930</u>	<u>\$ 927,930</u>	<u>\$1,080,737</u>	<u>\$152,807</u>

See notes to financial statements

Township of Morton
Building/Electrical/Plumbing Department Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>with Final Budget Positive (Negative)</u>
REVENUES				
Licenses & permits:				
Building permit fees	\$ 40,000	\$ 40,000	\$ 40,070	\$ 70
Plumbing/mechanical permit fees	28,000	28,000	34,457	6,457
Electrical permit fees	12,000	12,000	16,410	4,410
Interest earnings	<u>300</u>	<u>300</u>	<u>748</u>	<u>448</u>
Total revenues	<u>80,300</u>	<u>80,300</u>	<u>91,685</u>	<u>11,385</u>
EXPENDITURES				
Current:				
Public safety:				
Board of appeals	500	500		500
Building department	104,422	104,422	54,497	49,925
Plumbing & mechanical dept.	21,005	21,005	20,862	143
Electrical inspection dept.	<u>15,500</u>	<u>15,500</u>	<u>14,528</u>	<u>972</u>
Total expenditures	<u>141,427</u>	<u>141,427</u>	<u>89,887</u>	<u>51,540</u>
Excess(deficiency) of revenues over (under) expenditures	(61,127)	(61,127)	1,798	62,925
OTHER FINANCING SOURCES (USES)				
Transfers (out):				
General fund	<u>(7,200)</u>	<u>(7,200)</u>	<u>(14,400)</u>	<u>(7,200)</u>
Net change in fund balances	(68,327)	(68,327)	(12,602)	55,725
Fund balances-beg.	<u>61,127</u>	<u>61,127</u>	<u>61,569</u>	<u>442</u>
Fund balances-ending	<u><u>\$ (7,200)</u></u>	<u><u>\$ (7,200)</u></u>	<u><u>\$ 48,967</u></u>	<u><u>\$ 56,167</u></u>

See notes to financial statements

Township of Morton
Fire/Rescue Equipment Maintenance Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>with Final Budget Positive (Negative)</u>
REVENUES				
Property taxes	\$ 105,000	\$ 105,000	\$106,438	\$ 1,438
Federal grants			45,453	45,453
Contributions from private sources	25,000	25,000	26,400	1,400
Interest earned	2,500	2,500	4,000	1,500
Sale of assets			501	501
Total revenues	<u>132,500</u>	<u>132,500</u>	<u>182,792</u>	<u>50,292</u>
EXPENDITURES				
Current:				
Public safety:				
Building improvements	190,000	190,000	2,286	187,714
Fire equipment	22,000	22,000	21,092	908
Rescue equipment	5,000	5,000	451	4,549
Capital outlay	<u>73,000</u>	<u>73,000</u>	<u>73,612</u>	<u>(612)</u>
Total expenditures	<u>290,000</u>	<u>290,000</u>	<u>97,441</u>	<u>192,559</u>
Net change in fund balances	(157,500)	(157,500)	85,351	242,851
Fund balances-beginning	<u>308,235</u>	<u>308,235</u>	<u>300,543</u>	<u>(7,692)</u>
Fund balances-ending	<u>\$ 150,735</u>	<u>\$ 150,735</u>	<u>\$385,894</u>	<u>\$ 235,159</u>

See notes to financial statements

Township of Morton
Fire/Rescue Operations Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
REVENUES				
Property taxes	\$ 102,000	\$ 102,000	\$101,608	\$ (392)
Contributions:				
Private sources	10,000	10,000	10,000	
County sources	17,000	17,000	12,587	(4,413)
Interest earnings	300	300	716	416
House numbers revenue	200	200	155	(45)
Other			35	35
Total revenues	<u>129,500</u>	<u>129,500</u>	<u>125,101</u>	<u>(4,399)</u>
EXPENDITURES				
Current:				
Public safety:				
First response	300	300		300
Fire operations	122,702	122,702	75,073	47,629
Fire rescue operations	<u>54,400</u>	<u>54,400</u>	<u>43,521</u>	<u>10,879</u>
Total expenditures	<u>177,402</u>	<u>177,402</u>	<u>118,594</u>	<u>58,808</u>
Net change in fund balances	(47,902)	(47,902)	6,507	54,409
Fund balances-beginning	<u>47,092</u>	<u>47,902</u>	<u>48,064</u>	<u>162</u>
Fund balances-ending	<u>\$</u>	<u>\$</u>	<u>\$ 54,571</u>	<u>\$ 54,571</u>

See notes to financial statements

Township of Morton
Library Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>with Final Budget Positive (Negative)</u>
REVENUES				
Property taxes	\$ 160,000	\$ 160,000	\$159,680	\$ (320)
State aid	2,400	2,400	2,394	(6)
Charges for services	2,900	2,900	2,927	27
Contributions from private sources	3,400	3,400	4,712	1,312
Penal fines	33,000	33,000	32,833	(167)
Interest earned	1,100	1,100	1,247	147
Video tape rentals	6,200	6,200	6,335	135
Other	750	750	550	(200)
Total revenues	<u>209,750</u>	<u>209,750</u>	<u>210,678</u>	<u>928</u>
EXPENDITURES				
Current:				
Recreation & culture:				
Library:				
Personal services	98,000	98,000	98,138	(138)
Payroll taxes	7,500	7,500	7,508	(8)
Health insurance	4,800	4,800	5,174	(374)
Retirement	3,500	3,500	3,485	15
Supplies	9,000	9,000	9,034	(34)
Books	26,000	26,000	27,157	(1,157)
Travel (mileage)	1,200	1,200	1,329	(129)
Education	2,700	2,700	3,110	(410)
Membership	1,200	1,200	1,197	3
Telephone	4,500	4,500	4,542	(42)
Utilities	7,800	7,800	7,918	(118)
Repairs & maintenance	8,000	8,000	8,183	(183)
Insurance	1,800	1,800	1,798	2
Public relations	4,200	4,200	5,248	(1,048)
Postage & delivery	1,600	1,600	1,617	(17)
Equipment	2,000	2,000	1,971	29
Miscellaneous	1,600	1,600	1,608	(8)
Technology	17,000	17,000	16,938	62
Capital outlay	<u>12,000</u>	<u>12,000</u>	<u>12,715</u>	<u>(715)</u>
Total expenditures	<u>214,400</u>	<u>214,400</u>	<u>218,670</u>	<u>(4,270)</u>

Township of Morton
Library Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual
For the Year Ended June 30, 2005
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>with</u> <u>Final</u> <u>Budget</u> <u>Positive</u> <u>(Negative)</u>
Excess(deficiency) of revenues over (under) expenditures	(4,650)	(4,650)	(7,992)	(3,342)
OTHER FINANCING SOURCES (USES)				
Investment donations & dividend earnings			12,794	12,794
Net change in fund balances	(4,650)	(4,650)	4,802	9,452
Fund balances- beginning	83,102	83,102	313,744	230,642
Fund balances- ending	<u>\$ 78,452</u>	<u>\$ 78,452</u>	<u>\$318,546</u>	<u>\$240,094</u>

See notes to financial statements

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue fund are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Retirement Health Fund - This fund is used to account for transfers from the general fund that are specifically for funding current and future payments for health insurance costs for retirees and their spouses.

Township of Morton
Retirement Health Fund
Schedule of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>with</u>
				<u>Final</u>
				<u>Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
REVENUES				
Interest earnings	\$ 600	\$ 600	\$ 999	\$ 399
Total revenues	600	600	999	399
EXPENDITURES				
Current:				
General government:				
Health insurance	8,000	8,000	2,505	5,495
Total expenditures	8,000	8,000	2,505	5,495
Excess(deficiency)				
of revenues over				
(under) expenditures	(7,400)	(7,400)	(1,506)	5,894
OTHER FINANCING				
SOURCES (USES)				
Transfers in:				
General fund	10,000	10,000	10,000	
Net change in fund				
balances	2,600	2,600	8,494	5,894
Fund balances -				
beginning	67,310	67,310	67,310	
Fund balances -				
ending	\$ 69,910	\$ 69,910	\$ 75,804	\$ 5,894

See notes to financial statements

Members of the Township Board
Township of Morton
Mecosta County, Michigan

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Morton, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the Township of Morton, Michigan's basic financial statements and have issued my report thereon dated September 16, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Township of Morton's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Township of Morton
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township of Morton's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Township Board, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Samy E. Landolt, CPA, PC

September 16, 2005

COMMENTS AND RECOMMENDATIONS

Barry E. Gaudette, CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

Members of the Township Board
Township of Morton
Mecosta County, Michigan

My examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances.

It was not necessary to make any comments or recommendations.

This letter supplements the information in the Financial Statements and Notes to Financial Statements. It is intended solely for the use of management and the Township Board and should not be used for any other purpose.

Barry E. Gaudette, CPA, PC

September 16, 2005